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UNITED STATES NATIONAL INTERESTS IN CHINA: A POST-NORMALIZATION ANALYSIS

by

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This thesis analyzes the origin and evolution of United States economic and strategic interests in China, showing how they have been affected by the progressive political and economic developments within China. Special attention is paid to the problems of arms transfers from the U.S. in the light of their probable effects on China's future and on U.S. diplomatic relations in other parts of the Asian region.

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United States Interests in China:
A Post-Normalization Analysis

by

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ABSTRACT

This thesis analyzes the origin and evolution of United States economic and strategic interests in China, showing how they have been affected by the progressive political and economic developments within China. Special attention is paid to the problems of arms transfers from the U.S. in the light of their probable effects on China's future and on U.S. diplomatic relations in other parts of the Asian region.

TABLE OF CONTENTS

LIST OF TABLES

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I. UNITED STATES NATIONAL INTERESTS IN CHINA

The changing American interests in Asia, and especially China, over the past century have seemed reminiscent of a turbulent love-hate romance. The allure of trade and converts to Christianity sparked early interest, but the cultural contrasts and changing American views of the value of Sino-American relations have often caused China to take a minor place in the scheme of American foreign policy planning.

Despite the fact that our last three wars have been fought in Asia, Richard H. Solomon has observed, "the Asian region has taken a third or fourth place in a set of foreign policy priorities now focused on European security issues, the strategic balance, and the Middle East."[1]

Since the mid-1970's, trade with Asia has exceeded trade with Europe. And the changing relationships resulting from rapprochement between the United States and China calls for a re-evaluation of our national interests in China. One purpose of this thesis will be to define U.S. interests in China and then examine how present United States China policy matches those interests.

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[1]Richard H. Solomon, "American Defense Planning and Asian Security: Policy Choices for a Time of Transition," Asian Security in the 1980s (Santa Monica: Rand, 1979), p. 3.

Changing United States interests have led to changes in United States China policy. Because of the various pressures which both shape and sanction government policy, there is often a lag between changing interests and changes in policy. This has been especially apparent in the evolution of U.S. China policy during the twentieth century.

The hypothesis of this thesis is that present United States national interests call for a continuing improvement in U.S.-China relations. Moreover, the expansion of diplomatic, trade, and strategic contacts (including arms transfers) would support United States interests by:

-- Countering USSR efforts to expand their influence in Asia;

-- Helping equalize the military power balance both in Asia and world-wide;

-- Encouraging the continued success of more pragmatic elements in China;

-- Lessening the likelihood of conflict in Asia by reducing the probability of Sino-Soviet conflict.

In order to analyze questions and policy alternatives related to U.S.-China relations, the changes in U.S. interests and policy toward China over different periods of time will be analyzed. The intensity of different interests will be shown and related to changes in policy. The interests of the United States in China today and the development of improved relations over the past decade will be analyzed in light of the potential for future trade and strategic relations.

A. THE NATIONAL INTEREST

It seems appropriate to first discuss what is meant by national interests and how they are determined. A nation's national interests may simply be defined as those things which a nation determines to be important to the nation and its citizens. The degree of their relative importance determines a nation's priorities.

Many scholars have tried over the past three decades to analyze questions which arise from the concept of the national interests. Hans Morgenthau, the great proponent of the idea of power politics, in the early 1950's asserted that the United States' national interests have from the beginning been "obvious and clearly defined." He said those interests included: the goal of developing and maintaining the U.S. as a predominant power in the Western hemisphere, preventing conditions in Europe which would allow European nations to interfere in the Western hemisphere, and maintaining a balance of power in Asia. The last interest was generally expressed in efforts to prevent dominance of China by any foreign country. It was felt a power accumulation in Asia could threaten United States interests there.[2]

If American national interests were "obvious and clear" to Morgenthau, they were not so obvious to many. As our

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[2]Hans Morgenthau, "The Mainspring of American Foreign Policy: National Interest vs. Moral Abstractions," American Political Science Review, December 1950.

foreign policy has evolved from isolationism to increased involvement in world affairs, there has often been disagreement on what our nation's interests are in different parts of the world. One reason for this conflict has been the variance between "public or national interests and private or individual interests."

One group of theorists have supported the argument that "the public interest consists of those individual interests which all members of a community have in common."[3] This concept developed naturally from our democratic system which gives great credence to the voice of the governed. This encourages the feeling and idea that the voice of the majority best determines the correct course of government. However, when individual self-interesrs are examined in reference to public policy, it is easy to see that self-interests often conflict with the interests of large groups of the population, and sometimes even with the long-range interests of the whole of society. An example of this is the rapid industrialization of many cities, which has often led to serious impairment of the environment.

Therefore, the question of public interest sometimes requires a determination other than a majority vote to insure wise policy making. This calls for someone to make judgments

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[3]Virginia Held, The Public Interest and Individual Interests (New York: Basic Books, 1970), Chapter 4.

on moral or other grounds which override or even ignore the voice of the majority. Virginia Held has suggested that in this determination of choices among rival claims, "the claimant with the greatest political authority, or the claim which holders of the greater political authority approve, will be declared valid."[4] This may explain some policy formulation, but it gives almost a sinister motive to most policy makers and raises the question of value judgments associated with determining interests.

Richard E. Flathman developed the concept of the moral implications of a policy determination as it pertains to the public interest. While asserting that the policy maker uses terms such as "common good, public welfare, and national interest" to express approval or commendation of policies to the people, he also sets a normative standard for future policies. These precedents then form a basis for future policy decisions. The assumption is that these moral judgments are made in a reasoned way with the best interests of the people in mind.[5]

What are viewed in the domestic area as public interests are generally identified as national interests when applied

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[4] Ibid., Chapter 6.

[5] Richard E. Flathman, The Public Interest: An Essay Concerning the Normative Discourse of Politics (New York: Wylie, 1966).

to the foreign affairs of a nation. William P. Bundy identifies the American foreign policy heritage received from the Founding Fathers as: "physical security of the United States, an international environment in which the United States can survive and prosper, and that the United States should by example and/or action influence the spread of representative government in the world."[6] If these were indeed always the primary national interests of the United States, our foreign policy has not always consistently supported those objectives. In fact, it was not until 1898 that the United States showed a serious interest in the affairs of nations in other parts of the world. Early U.S. interests in China developed slowly.

B. DEVELOPMENT OF AMERICAN INTERESTS IN CHINA

1. Traders and Missionaries

John King Fairbank has said, "The West approached China through the medium of China's foreign trade. The Western impact can only be understood against this commercial background."[7] Portuguese adventurers in the sixteenth century and British traders in the early seventeenth century began regular trade with the reluctant "Middle Kingdom."

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[6]William P. Bundy, "Dictatorships and American Foreign Policy," Foreign Affairs, vol. 54, 1975, p. 51.

[7]John King Fairbank, The United States and China (New York: Viking, 1962), pp. 107-108.

An example of the reticence of the Chinese to expand the areas of Western trade is the British case. They first opened trade in Canton in 1637. And it was the nineteenth century before they were able to move beyond Canton.[8]

John Ledyard was an American who had accompanied Captain Cook on his travels in the Pacific between 1776 and 1781. He returned with accounts of rich profits to be made from the sale of furs in Canton. In 1784, the first American ship, The Empress of China, set sail from New England for China. But the Americans played a secondary role in most of the early dealings with China. And most early American perceptions of China were shaped by the accounts of early traders or missionaries who had been to China.[9]

These perceptions varied from admiration to scorn. It has been reported that

> Benjamin Franklin (1771) hoped America would increase in likeness to her. Thomas Jefferson (1785) held that China's policy of nonintercourse was ideally adapted to American use. And John Quincy Adams (1822) praised the Chinese use of the decimal system.[10]

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[8]John K. Fairbank, Edwin O. Reischauer, and Albert M. Craig, East Asia: The Modern Transformation (Boston: Houghton Mifflin, 1965), p. 71.

[9]Paul H. Clyde and Burton F. Beers, The Far East (Englewood Cliffs: Prentice-Hall, 1975), p. 79-80.

[10]Ibid.

But many Americans did not have such a high opinion of the Middle Kingdom. As early missionary tales came back to the home congregations, many envisioned the depraved state of the "heathen souls." To most Americans, China was so distant both in miles and culture that she was thought of only as one of those "far away places with strange sounding names."

As trade grew between China and Western nations, and especially with the development of extensive trade in opium in the nineteenth century, the Chinese government tried to control the trade more. The Opium War (1840-1842) erupted when the Chinese Commissioner, Lin, Tse-hsu, asserted his authority in an effort to control the drug trade in Canton. A British expeditionary force was sent to Canton and then up the coast to secure commercial and diplomatic rights in China on a Western basis of equality. The resulting Treaty of NanKing (1842) outlined most of the principles which were to become known as the "unequal treaties." But China was not yet willing to accept the provisions which had been imposed on her. It was not until a second war in 1858 that the British and French received in the Treaty of TienTsin the terms they wanted.[11]

The treaty concessions received by the Western powers included expanded rights to trade in many ports (eventually)

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[11]Fairbank, op. cit., pp. 120-121.

eighty ports were included), extra-territoriality for their citizens living in China, and rights for their missionaries to work throughout China. By the imposition of the "most favored nation" principle, all nations were given the privileges granted any other nation. This allowed American merchants and missionaries to take advantage of the precedents set by other nations.

The difficulties of 1840 caused American traders to request the United States government assist them in protecting American trading rights in China. On December 30, 1842, four months after the Treaty of NanKing had been signed, President Tyler asked Congress to appoint "a resident commissioner to protect the commercial and diplomatic affairs of the United States in China."[12]

Caleb Cushing was appointed as the first U.S. Commissioner to China. He went to Canton where he was stopped. But his threats to go to PeKing led to the signing of the Treaty of WangHsia in 1844. This treaty gave the United States the same basic rights which had been outlined in the Treaty of NanKing signed between the Chinese and the British two years earlier.

United States interests in China at this time were twofold. The first interest was in the commercial trade. By 1805, it was reported that 37 American ships carried

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[12]Clyde and Beers, op. cit., p. 81.

11 million pounds of tea out of Canton.[13] There was also a ready market in the United States for the fine silks imported from China. But the second interest was gaining in importance in most Americans' minds. That was the growing effort to spread Christianity to China. This missionary effort contributed to the moral tone of American interests in China over the years.

Despite the concessions Americans enjoyed in China, most Americans were proud that the United States had not fought wars or seized colonies in Asia. It was stated that, at least in the American view,

> Americans had avoided "imperialism" in the Far East just as they had avoided "entangling alliances" in Europe. By involving Britain's own doctrine of most-favored-nation treatment and equal opportunity, the United States had got the benefits of Britain's free-trade empire without its odium of responsibilities.[14]

2. Diplomats

The events of 1898 changed America's posture in the Far East. Almost by accident, triggered by the war with Spain over Cuba, the United States acquired the Philippines from Spain. The military contest in the battle of Manila resulted in the defeat of the Spanish fleet at a cost of only six American injuries. After a great debate in Congress over the question of America becoming an imperialist nation,

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[13] Ibid., p. 80.

[14] Fairbank, Reischauer, and Craig, op. cit., p. 475.

the United States accepted control of the Philippines from Spain. In the same year, Hawaii was annexed by Congressional action; Guam was turned over by Spain and a three-power agreement gave the United States part of Samoa. The United States had all of a sudden become a Pacific power. But the sentiments of most Americans still favored a non-imperialist foreign policy.[15]

In September of 1899, Secretary of State John Hay sent the "Hay Notes" to other nations having an interest in China. The notes recommended adoption of a joint position granting equal rights to all treaty ports in China and the elimination of "exclusive spheres of influence." Although Britian, Germany, France, Italy and Japan all replied that they would accept the provisions if all other nations did so, Secretary Hay blandly notified all concerned that their "unanimous acceptance had been final and definitive."[16] The Russians' response had been negative, but they were also pressured to go along with the other nations in accepting the proposal.

The lead taken by the United States was generally recognized as an act against imperialism in China. It was also a reflection of the current U.S. interest in maintaining

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[15] Ibid., pp. 476-477.

[16] Ibid. The American motives and interests in China are also discussed in Fairbank's The United States and China, pp. 249-259.

a free and open market for trade in China. Moreover, it supported the American interest in preventing any foreign power from acquiring too much influence in China. This continued to be the basis of the U.S. China policy for the next four decades.

C. CHANGING INTERESTS IN THE TWENTIETH CENTURY

Events of the twentieth century reshaped our thinking about U.S. interests in the world. After the turn of the century, America began to move toward a more active role in international affairs. The idealism of President Wilson, as he tried to create a new world order, was followed by a strong U.S. response to the rise of dictatorships in Europe and Asia.

When the Japanese began to move into China, it was a direct violation of the Open Door concept. On July 16, 1937, Secretary of State Cordell Hull outlined the high principles of international conduct with reference to the violation of those principles in the Far East. On October 6, the State Department announced that it was considering the Japanese action in China a violation of the Nine-Powers Treaty of 1922 and the 1928 Kellogg-Briand Pact. The day before, President Roosevelt had recommended a "quarantine" to halt the "spreading epidemic of world lawlessness."[17]

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[17]Edmund Clubb, 20th Century China (New York: Columbia University, 1972), p. 218.

But the United States had taken almost no action six years earlier when the Japanese invaded Manchuria, and even with Washington's warnings, little was done either to aid the Chinese or to pressure the Japanese to withdraw. By the Neutrality Acts of 1935 and 1937, the United States had outlined its policy of non-intervention. It was not until July 26, 1941, after the Japanese had occupied South Indo-China, that the United States embargoed petroleum exports to Japan.[18]

The bombing of Pearl Harbor changed many Americans' feelings about U.S. interests in Asia. As the United States entered the war in the Pacific against Japan, she became more closely allied with China. Much has been written about the frustrating experiences of Americans trying to forge a united front in China between the Kuo Min Tung (KMT or Nationalist) and Communist forces. But the war did make Americans more interested in and knowledgeable about events in Asia.

After World War II, the question of what American interests were in China was raised again. There was much debate regarding what the U.S. policy in China should be. The "China Lobby" became very vocal in urging American support for the KMT faction in China. Much of this support was rallied to the cause by Madam Chiang, Kai-shek, the American-educated

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[18] Ibid., p. 230.

wife of the Nationalist leader. She pictured herself and the Generalissimo as faithful Christians fighting to save China from "Godless Communism." But the effort was unsuccessful.

With the loss of China to the Communists, a flurry of accusations was leveled against those who had been involved in China. Especially those who had reported on the successes of the communist movement or had been critical of the KMT government were accused. But the decision of history had been made, and no hearings or criticism could change what had happened.[19]

The rising fear of communist expansion shaped United States foreign policy in the 1950's and into the 1960's. The experiences of Vietnam then caused many to call for a reduction in American involvement abroad. United States interests in China have generally coincided with other trends in American foreign policy. However, there have been some instances when special interest groups in the U.S. have influenced foreign policy toward China in a different direction.

Donald E. Neuchterlein has provided a conceptual framework for evaluating a nation's interests which can help to

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[19]The China White Paper (Stanford: Stanford University, 1979). The introduction to the republication of these important papers by Lynam Van Slyke discusses these events and their impact on U.S. policy.

ascertain the level of interests in several key areas. Using a "national interest matrix" with a scale identifying the intensity of interests, the extent of a nation's interests in certain areas can be assessed. It is true that any judgment of the level of interest of a nation in any area is somewhat subjective, but often the policies adopted by a nation are an indication of the degree of interest a nation has in a given country.[20]

The fundamental interests identified by Neuchterlein are: "defense interests, economic interests, world-order interests, and ideological interests."[21] These seem applicable to an evaluation of U.S. interests in China. To illustrate changing U.S. interests, the following three matrices represent American interests in China over different periods of time.

In 1899, when Secretary of State John Hay circulated the "Hay Notes" calling for the "Open Door" principle to be applied to China, the object was to insure equal trade opportunities in China for all nations by eliminating exclusive spheres of influence. This was for the next half century the U.S. policy toward China. During this period, the active work of Christian missionaries in China was also an effort to influence the value system of the Chinese.

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[20]Donald E. Neuchterlein, "The Concept of 'National Interest': A Time for New Approaches," Orbis, Spring 1979.

[21]Ibid.

TABLE 1

UNITED STATES INTERESTS IN CHINA, 1900 - 1949

	Intensity of Interest			
Basic Interest at Stake	Survival	Vital	Major	Peripheral
Defense of Homeland				X
Economic Well-being			X	
Favorable World-order			X	
Promotion of Values			X	

Christian and Western values were especially promoted in the Church schools which were established throughout China. In 1907, it was reported that there were 53,220 students in 2,139 different mission-operated schools.[22] The object of the missionary teachers in these schools went beyond basic academic subjects. As one missionary wrote in 1912, "The missionary of today is not content with inspiring saving faith; he aims at an all-around transformation in the life of the convert. This implies a startling change in fundamental values."[23] This effort was supported financially

[22]Marshall Bromhall, The Chinese Empire, A General Missionary Survey (London: Morgan and Scott, 1970), p. 378.

[23]Edward A. Ross, The Changing Chinese (New York: The Century Company, 1912), pp. 228-229.

by many Americans by regular contributions to their Christian mission funds.

Prior to World War II, China did not pose a threat to the defense of America. However, trade continued throughout the period and much of our China policy was an expression of those economic interests.

TABLE 2

UNITED STATES INTERESTS IN CHINA, 1949 - 1972

	Intensity of Interest			
Basic Interest at Stake	Survival	Vital	Major	Peripheral
Defense of Homeland			X	
Economic Well-being				X
Favorable World-order			X	
Promotion of Values				X

The communist victory in the Chinese civil war in 1949 caused a major change in American interests in China. Coming at a time when concern about communist expansion was America's greatest foreign policy concern, almost all contact with the Chinese mainland ceased. It was not long until the Korean War brought an alliance with the Nationalist government on Taiwan and combat against People's Republic of China (PRC)

troops on the Korean Peninsula. China was now perceived as a threat to the United States. She had become an ally with the Soviet Union, by then the United States' number one enemy, and threatened the existence of "Free China" or Taiwan. The policy adopted to "contain" Chinese communism was non-recognition of the PRC government. The U.S. also opposed recognition or acceptance of the PRC government by international organizations, such as the United Nations.

TABLE 3

UNITED STATES NATIONAL INTERESTS IN CHINA SINCE 1972

	Intensity of Interest			
Basic Interest at Stake	Survival	Vital	Major	Peripheral
Defense of Homeland			X	
Economic Well-being			X	
Favorable World-order		X		
Promotion of Values			X	

American missionaries were asked to leave China and trade between mainland China and the United States virtually stopped. For two decades, America viewed any increase in PRC participation in the world community as a detriment to world order.

But changing world events caused a gradual change in American thinking. The Sino-Soviet rift appeared to be growing wider and China was appearing less hostile. The turning point in American China policy was the 1972 trip to China by President Richard Nixon. Since then, U.S. interests in China have again changed.

The reasons for the change in U.S. policy toward China were debated at length. One of the major causes for the change was the growing power triangle involving the United States, the Soviet Union and the People's Republic of China. In this triangle, China, the weakest member, looked to the less threatening of the other two, the United States, for potential support.[24] At the same time, there had been growing concern in the United States over the great increase in Soviet military capabilities. The U.S.-China rapprochement provided an opportunity to weaken the image of the communist bloc and the U.S. has pursued that opening.

Since 1972, U.S. interests in all areas in China have intensified (see Table 3). This has led to the closer relations between the two nations. The change has been due in part to U.S. perceptions of what the threat to U.S. interests has been. Previous scenarios viewed the USSR and the PRC as our potential enemies. Now the United States sees

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[24]Donald S. Zagoria, "Normalizing Relations with China without 'Abandoning' Taiwan," Pacific Community, October 1977, p. 75.

the Soviet Union as the potential enemy and China as a potential ally in any confrontation with the USSR.

It did not take long for business interests to see the potential in the resumption of trade with China. Since 1972, the number of trade contracts has gradually increased. The Chinese interest in modernization has contributed to the feeling that trade can be beneficial to both countries.

D. SUMMARY

The United States interests in China have changed over the years. The early interests were in trade and missionary work, which was seen as a way of sharing American values with the Chinese. During the first half of this century, the United States showed concern for the preservation of the integrity of China. This was expressed by the "Open Door" policy which discouraged any nation gaining exclusive spheres of influence in China. The Japanese invasion of China was a violation of that policy which eventually led to war.

After World War II, the Chinese Civil War and the communist victory in that war caused a re-evaluation of American interests in China. The policies adopted then were designed to curtail the growth of communism. This led to non-recognition and limited contact for over twenty years. The resumption of relations with mainland China came about because of another reconsideration of American national interests.

America has different national interests in China. Among them are strategic interests, economic interests, world-order

interests, and an interest in promoting American values. Since 1972, interests in all areas have seemed more intense. One of the key interests the U.S. has had in China over the past two centuries has been an economic interest. With the resumption of relations between the United States and China, the economic has once again become one of our main interests in China.

II. UNITED STATES ECONOMIC INTERESTS

As has already been indicated, much of the U.S. interest in China over the years has been sparked by trade interests. After the establishment of the People's Republic of China on October 1, 1949, any interest in economic relations was overruled by political decisions, both by the Chinese and American leaders. The Soviet Union recognized the new PRC government in January 1950; many other nations soon followed suit. Britain, India, Finland, Sweden, and Denmark all formally granted diplomatic recognition, but the U.S. was reconsidering her interests. The Korean War helped shape the direction of United States China policy.

American aid was soon going to Taiwan to help the Nationalist government build up both its military forces and the economy. Trade began to grow with Taiwan as her economy expanded. But trade with the PRC on the China mainland slowed to a halt. As changing conditions have again caused American interests in trade with the China mainland, it is worthwhile to review economic developments which have taken place since the establishment of the People's Republic of China over thirty years ago.

Mao Zedong provided the direction for the victory over the KMT armies in the 1940's, and until his death in 1976, was the chief architect of both government policy and action.

While fighting both the Japanese and KMT armies, Mao built his strength in the rural areas of China. He was always somewhat uneasy with the urban populations, intellectuals, and bureaucrats. These feelings undoubtedly influenced the course of China's history and economic development.

There have always been those within China who have encouraged a different approach to economic development than Mao. Some of these have even encouraged political restraint, emphasis on economic development, and use of free market forces to promote rapid economic development. But these forces had limited influence during Mao's reign.

A. THE ECONOMIC SETTING

China's population of approximately one billion people provides both a blessing and a curse to her economy. Being rich in labor, there is the potential for great production; having many mouths to feed, there is need for much food just to provide sustenance for the people. As the world's third largest country (406,065 square miles), China has abundant natural resources. These factors combine to give her the potential to become one of the world's super-powers.

The natural geography provides the following:

> A hydroelectric potential first among nations; and huge iron and coal deposits capable of supporting an iron and steel industry that would compete with those of the United States and the Soviet Union. China is self-sufficient in crude oil and petroleum products, has large untapped oil reserves, and it is a major

producer of mercury, tin, and tungsten. It is deficient in chromium, nickel, cobalt and rubber.[25]

But China's greatest shortage is in the technology and capital to develop its economic potential. However, before discussing today's problems, a look at the progress that has been made over the past three decades is appropriate.

1. Reconstruction (1949-1952)

When the communists came to power in 1949, they approached economic reforms cautiously. The country had suffered the Japanese invasions of the 1930's and 1940's and the long civil war. Therefore, the greatest need was for political stability, which would allow the economy to recover from the long period of civil disorder. The new government provided that stability.

A land reform program was initiated. Patterned after the modest reform programs the communists had implemented in areas of Northern China, land was taken from the large landowners and redistributed to poor peasants and tenant farmers. "In the course of the reform, nearly 125 million acres were taken from some four million large owners and redistributed to nearly 50 million small land holders, landless peasants and farm labourers."[26] But the reforms

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[25]Allan G. Gruchy, Comparative Economic Systems (Boston: Houghton Mifflin, 1978), p. 603.

[26]Christopher How, China's Economy (New York: Basic Books, 1978), p. xxii.

were carried out in a less violent manner than earlier Soviet reforms. The renewed social order and incentive given new peasant landowners were adequate to restore agricultural production to the highest pre-1949 levels.

Industrial reforms were approached even more cautiously than the agricultural reforms. Private firms were allowed to continue operating industries and businesses. This allowed China to capitalize on the experience that was available during the transition period. By 1952, both agriculture and industry had shown remarkable recoveries. The following production figures reflect the increased industrial output.

TABLE 4

INDUSTRIAL OUTPUT, 1949 - 1952[27]

Product	1949 Production	1952 Production
Steel (tons)	158,000	1,350,000
Coal (tons)	32,430,000	66,490,000
Crude Oil (tons)	121,000	436,000
Cement (tons)	660,000	2,860,000
Electricity(KwH)	4,310,000,000	7,300,000,000

[27]Jean Chesneaux, China: The People's Republic, 1949-1976 (New York: Pantheon, 1979), p. 47.

2. The First Five-Year Plan (1953-1957)

The comparative success of the economy from 1949 to 1952 led Chinese leaders to take a more serious look at economic goals and planning. The State Planning Commission was established in November 1952. Its first task was the development of the first Five-Year Plan (FYP). This plan was modeled after the Soviet economic plan. It is especially important now, because many of the key planners are once again playing an important role in China's economic development.

The Chinese had sought and received Soviet aid after their 1949 victory. The Soviet economic model gave emphasis to the development of heavy industry with strong central planning and control. The implementation of such a plan depended on a strong political organization. Workers were given little say in the establishment of production goals or decisions. The goal of the first FYP was to double industrial production in five years. In order to accomplish this, 88% of the development funds were allocated to heavy industry.

The success of the plan was impressive in the area of industrial growth. The Chinese by 1957 reported they had achieved an industrial growth rate of 15% per year.[28]

The progress in agricultural production was much slower. Steps had been taken to socialize the rural sector

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[28]Howe, op. cit., p. 59.

TABLE 5

INDUSTRIAL OUTPUT, 1952 - 1957[29]

Product	1952 Production	1957 Production
Steel (tons)	1,350,000	5,400,000
Coal (tons)	66,490,000	130,000,000
Crude Oil (tons)	436,000	2,000,000
Electricity (KwH)	7.3 billion	19 billion
Cotton Cloth (l s)	3.0 billion	5 billion

by organizing agricultural cooperatives. Peasants who had only a few years before been given ownership of land saw control of that land now move to others. Their incentive to produce was reduced. Agricultural production rose 9% during the whole five-year period, hardly keeping pace with the population growth rate.[30] But Chinese leaders were pleased with the progress they had made since 1949. Buoyed up by that success, Mao Zedong in 1958 said, "We shall catch up with Britain (economically) in about fifteen years."[31] But future economic development did not live up to Mao's high expectations.

[29] Ibid.

[30] Ibid., p. 65.

[31] Alexander Eckstein, China's Economic Revolution (Cambridge: Cambridge University, 1977), p. 51.

3. The Great Leap Forward (1958-1960)

The whole tone of economic planning changed in 1958 with the launching of "The Great Leap Forward." The effort to accelerate the move to communize society led to the organization of large communes. Workers were pushed to longer hours. And agricultural workers were drafted into the industrial production force. With over 80% of the population still dependent on agriculture for their livelihood, the massive reorganization of society led to disruptions of the agricultural sector. The result was food shortages.[32]

The unrealistic aims established for the Great Leap Forward are illustrated by the grain production goals. The 1958 production goal was 375 million tons, more than double the 1957 production. In August 1958, Mao told a group of commune workers, "The time has come when the surplus of food grains will be impossible to dispose of."[33]

The "Shang shan hsia hsiang (up to the mountain and down to the village)" campaign was launched to force greater production from the rural sector. The purpose was to move surplus labor from the cities to the country to work in the communes.

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[32]Frank H. H. King, A Concise Economic History of Modern China (1840-1961) (New York: Praeger, 1969), p. 188.

[33]People's Daily, August 11, 1958, quoted in Howe, op. cit., p. xxviii.

> By early 1958, three million students and one and a half million government cadres had embarked on work in rural China. In the spring of 1958, two-thirds of the staff of the Chinese Academy of Agricultural Sciences also went to labor in the fields.[34]

The high expectations of 1958 only added to the disillusionment of 1959, when production realities became painfully apparent. Despite exaggerated production reports, by January of 1959 the scope of the problem was becoming obvious. Only by purchasing grain from abroad was China able to avoid massive starvation. The huge communes had not lived up to their forecast successes. By 1960, they were being divided into smaller units.

The goal of greatly increasing steel production by use of backyard furnaces also proved a failure. The steel thus produced proved to be of such poor quality that it had little practical use. Moreover, the effort put into backyard smelting operations often diverted labor and attention from agricultural work.

The effect of the Great Leap on other industries can be seen in the drop in coal and oil output. Coal production fell from 230 million metric tons in 1958 to 170 and 180 million metric tons in 1961 and 1962. Oil production dropped similarly. The production of cotton cloth fell from 5,050 million meters in 1958 to 3,500 million meters in 1962.[35]

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[34]Kuo-chün Chao, Economic Planning and Organization in Mainland China, vol. I (Cambridge: Harvard University, 1963), p. xxi.

[35]Howe, op. cit., pp. 106 and 125.

4. Recovery (1960-1965)

China had to turn back to the planning and policies of the early 1950's to recover from the ill-fated Great Leap Forward. Mao Zedong had been largely responsible for the plans of the Great Leap. By 1970, he had confessed to some of the errors made under the program. He also stepped (or was pushed) down from the position of Chairman of the People's Republic of China. Liu Shaoqui was made Chairman. Liu and other leaders who now had more influence on policy decisions favored a pragmatic approach to economic planning. Signs of economic recovery were evident by 1964. The return to political and economic stability allowed both agricultural and industrial production to return to previous levels. But the stability was not to be a long-term condition.

5. The Cultural Revolution (1965-1969)

Mao had watched the bureaucracy grow larger and stronger as many of the initiatives he had implemented were reversed. He felt China was losing sight of the goals of the revolution and communism. His support in the party and government was now limited. Therefore, he again called upon the masses to mobilize. The result was the Cultural Revolution. It drew its name from its early efforts to reshape the culture of China. But it went far beyond culture in its scope.

Mao first mobilized the students as the Red Guards. Later all the people of China were called upon to criticize

those who had erred. The targets in factories became the managers and supervisors, in schools the teachers and administrators, and in the government almost anyone in a position of authority was singled out. During the purges that followed, the party, the government and industry lost many of their most outstanding administrators. Anyone who had shown any tendencies toward capitalistic ideas was especially vulnerable. The impact on industry was soon evident.

The civil disorder associated with the Cultural Revolution disrupted both production and distribution of goods. Delivery of raw materials was irregular, adding to the problems of industries.[36]

Agriculture was not as seriously affected as industry during the Cultural Revolution. Having witnessed the disastrous effect of the Great Leap Forward on agricultural output, Mao cautioned the Red Guards not to interfere with agriculture. But the problem of transporting farm products to the consumer was still a problem.

One of the most serious long-term effects of the Cultural Revolution has resulted from the closing down of almost all schools in China for several years. Those who missed out on schooling during this period are far less productive laborers even today than they might have been.

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[36]China, An Analytical Survey of Literature, 1978 (Washington: Department of the Army, 1978), p. 142.

6. Recovery (1969-1976)

By the end of 1968, calls for order were being sounded. The Red Guards were roaming the whole country and the excesses of the revolution were evident. The young Red Guards did not respond quickly, and the army was called on to restore order. Many of the young students who had been the cutting edge of the movement were then sent again to the countryside. But this time, the goal was not to demonstrate or criticize, but to be re-educated through work.

The early 1970's saw a return to a more stable political environment and the economy again responded with increases in production.[37] Other important changes were also taking shape. Leaders, such as Zhou Enlai, were encouraging a more open foreign policy for China. Moves were made to expand relations with Japan, the United States, and many countries in Europe. Much of the motivation for these new foreign policy initiatives was economic.

B. A NEW DIRECTION

1. New Leadership

Hua Guofeng emerged as Premier following Zhou Enlai's death on January 8, 1976. Little known outside of China, Hua had been appointed Minister of Public Security just a year

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[37]A summary of production figures covering this period is included in Appendix A.

earlier. Hua's appointment appears to have been a compromise between two contending factions. Deng Xiaoping, who had been groomed by Zhou for the Premiership, was not acceptable to Mao and the radical group represented by the "gang of four." Therefore, he was passed over and Hua became Premier. But the struggle for leadership was not over yet.

When Mao died in September of 1976, the strength of the Deng faction was adequate to purge the more radical element from the politburo. The "gang of four" (Wang Hongwen, Zhang Chunqiao, Yao Wenyuan, and Mao's widow, Jiang Qing) were arrested. Hua Guofeng was appointed Chairman of the People's Republic, and Deng Xiaoping re-emerged as Premier.

Under Mao's leadership, China had become unified into a modern nation state. Land reforms carried out in the 1950's are being studied by Third World countries today as a model for their own reforms. The foundation had been laid for industrial modernization. By 1976, China ranked sixth in the world in total industrial production. The stage now seemed set for a dramatic move forward.

2. The Four Modernizations

It was soon apparent the new leaders were committed to a new more pragmatic approach to political and economic programs. Chen Yun, the chief economic planner of the first FYP, was rehabilitated from being purged in the late 1950's. Plans began to take shape for a new economic thrust.

Hua Guofeng verbalized the goal of achieving "Four Modernizations"[38] by the year 2000 when he spoke to delegates to the People's Congress in February of 1978. Steps taken earlier to increase trade with Western nations were expanded. The new leaders see trade, especially with the West, as an important factor in transforming China into a modern industrial state.

The third Plenary Session of the Central Committee of the Chinese Communist Party met in December of 1978. They agreed that attainment of their modernization goals would depend a great deal on success in the agricultural sector. They decided to place first priority on the vigorous development of farming, forestry, animal husbandry, and fisheries. Grain production was cited as the key link in agricultural development. It was also decided that emphasis should be placed on developing light industry throughout China.[39]

Many steps have been taken since then to stimulate the economic productivity of China's large work force. Among those things done so far, one of the most important has been the move toward more capitalistic work incentives. Once again private plots are being farmed, and the farmers

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[38]The four modernizations is a phrase referring to the modernization of agriculture, industry, science and technology, and defense. When first outlined, defense was listed third, but since 1979 it has always been listed last.

[39]"Survey: China," International Development Review, vol. XXI, no. 2, 1979, p. 49.

are allowed to sell or use the produce themselves. Within factories and communes, local workers are being given a greater say in the formulation of production plans and decisions. Wage increases in 1980 averaging about 30% have given workers the prospect of higher living standards.

The initial goals set by the government for production growth were very optimistic. Many of them have already been revised downward to more realistic levels. But they will still require great successes if they are to be achieved. Grain production in 1979 was reported to be 332,115,000 tons, up nine percent from 1978.[40] But 1980 production dropped to 318,220,000 tons, down 4.2% from 1979.[41] In order to reach their goal of 400 million tons by the year 1985, they would have to sustain a higher rate of increase in production than any major grain producing country has ever achieved.[42] The prospects of their reaching many of their goals do not seem good.

C. SUMMARY

China has made considerable economic progress since 1949. However, periods of growth have been almost equaled by times of great social and economic disruption. The present

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[40] China Reconstructs, July 1980, p. 17.

[41] Beijing Review, 11 May 1981, p. 25.

[42] David Housego, "China's Great Leap in the Dark," Financial Times, January 19, 1979.

leadership and the economy both seem ready to make great strides forward. Whether or not they succeed will depend largely on the ability of the leadership to maintain the political stability that has often been lacking in the past.

The Chinese have recognized that in order to meet their goals they will have to acquire capital and technological know-how which they now lack. They are looking abroad for that. This marked change in China's feelings about dealing with the West provides opportunities for other nations, including the United States, to benefit from trade and other relations with China. This prospect has caused a marked change in United States national interests in China.

III. CHANGING ECONOMIC INTERESTS SINCE 1972

The contrast between the economies of China and the United States leads economists to the conclusion that trade between the two countries should be mutually beneficial. The United States is rich in capital with an advanced technology. These are China's greatest needs. On the other hand, China is rich in labor and natural resources which could be made available to the United States. However, there are still many obstacles to expanding trade.

A. TRADE PROSPECTS

The difficulties confronting Western businessmen in obtaining contracts with the Chinese are monumental. The granting of "most-favored-nation" status to China will give the Chinese many advantages which should encourage reciprocal concessions by the Chinese. Despite the problems involved in conducting trade with China, by 1978, U.S.-China trade had reached a volume of $1 billion.[43]

Shortly after the initial movement toward closer U.S.-China relations in 1972, the initiation of trade was helped by a poor harvest in China. The first major exports to China were therefore grains. During 1973 and 1974, the

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[43] Doing Business with China (Washington: U.S. Department of Commerce, February, 1979), p. 1.

United States exported approximately seven million tons of grain to China.[44] Agricultural products have continued to lead U.S. exports to China. The leading export items over the past seven years have been wheat, corn, cotton, and soybeans. The greatest factor in U.S.-China trade has been Chinese demand for U.S. goods. This has contributed to the increasing balance of trade problem China is trying to solve.[45]

United States imports from China have been mainly textiles and a variety of handicraft items. So far, prospects for a dramatic increase in trade have been limited by the Chinese lack of capital to support major imports of high technology which they would like to acquire. However, China is attempting to generate more exports to help finance additional purchases. One of the resources they have been hoping will help them is oil.

1. China's Oil Resources

Based on initial oil discoveri s in China, there has been speculation that China has vast untapped reserves that could be developed. It is China's hope that by developing some of that oil potential, while at the same time expanding

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[44]Alexander Eckstein, China's Economic Revolution (Cambridge: Cambridge University, 1977), p. 267.

[45]Appendix C illustrates the increasing trade deficit China has. Appendix D shows some of the differences in value of China's imports and exports to and from the U.S.

coal production, they can expand their oil exports and use coal to meet the growing domestic energy demands.

In an effort to increase oil production, China has entered into contracts with many foreign oil companies for exploration work. The initial surveys were planned for the offshore areas along China's Southwest and Northeast coasts. The companies were to complete the surveys within twelve months and submit the results to the Chinese government. The main benefit granted the companies who do the exploration is the right to bid for drilling rights in areas of discoveries.[46] Some oil has been located; however, the discoveries have not matched the Chinese government's expectations. This has caused them to look for other fields.

In February 1980, the Chinese government invited foreign firms to conduct oil surveys in the China inland. This was a change in the Chinese policy. It was probably caused by some disappointment over the offshore finds, as well as the realization that China lacks the resources and expertise to adequately develop her inland resources. They are especially optimistic about oil reserves in the Xinjiang Province which borders on the Soviet Union.[47]

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[46]The China Business Review, July 25, 1979, p. 62.

[47]China Seeks Foreign Help in Inland Oil Exploration," The Asian Wall Street Journal, February 25, 1980, p. 2.

The problem with China's oil production is that it has not matched government forecasts. In 1979 production rose only 1.9%, compared to an increase in industrial output of approximately 8%. At the same time, coal production has also failed to match production goals. In 1979, the increase in coal production amounted to 2.8% over 1978.[48]

The failure to meet oil and coal production goals has caused serious concern for China's economic planners. It has also caused some analysts to predict that, "if there is not a significant increase in coal production, China may be forced to use all of her oil to meet her own energy needs."[49] This could compound the balance of trade problem. The oil exports for 1979 were approximately 12% less than in 1978 with a value of 21,200 million yüan compared to 24,300 the previous year. Moreover, the Chinese have asked the Japanese and Thais to reduce their petroleum purchases beginning in 1981. These factors have contributed to a re-evaluation of China's economic goals. This is important to the United States' interests in trade because it is one indication that China's economy may grow more slowly than had been forecast.

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[48]"PeKing Pushing Back Production Goals," The Asian Wall Street Journal, March 17, 1980, p. 2.

[49]Ibid.

[50]"Fulfillment of 1979 National Economic Plan," Beijing Review, No. 16, April 21, 1980, pp. 17-18.

2. Capital Investment

The greatest problem facing China in her effort to achieve modernization is obtaining the capital to finance the purchase of advanced technology. The United States, Japan, and several Western European countries have shown an interest in providing equipment, training and credit to assist China. But most of the things China would like to acquire are expensive and there have been obstructions to extensive credit arrangements.

The PRC government has carefully controlled the extent of foreign credit. One way they have done this is by restricting the areas and projects which may be developed under their new "Joint Venture" laws. The cities of Guangzhou and Shenzhen, both near HongKong, are two cities where foreign investors have been welcomed. The Chinese report that in Shenzhen, during a ten-month period last year, 380 different firms sent representatives to negotiate contracts. Over 200 contracts were signed.[51] It has also been reported that by August 31, 1979, Guangdong Province had 368 joint venture projects underway.[52]

It is apparent that foreign investors are willing to invest in Chinese joint ventures. However, there is still

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[51]Liu Xueqiang, "Developing Shenzhen," China Reconstructs, March 1980, pp. 11-12.

[52]Xian Zien, "Aiding Overseas Investors in Guangzhou," China Reconstructs, March 1980, p. 17.

concern on the part of many Chinese that foreign involvement will undermine the authority of the Chinese to effectively control these ventures. This accounts in part for the strict terms the Chinese have demanded on joint ventures.

Shortly after the joint venture law went into effect in July of 1979, a Chinese Foreign Investment Commission was set up. This commission is to oversee all joint ventures between Chinese and foreign firms. In an effort to expedite foreign investments, the commission has pledged to approve or reject all joint venture requests within three months of the date approval is requested.[53] Other recent events will make international monetary transactions easier.

China's recent acceptance in the International Monetary Fund (IMF) provides the potential for large sums of financial aid. The amount they may obtain is uncertain, but in 1979 India received $1.5 billion in loans and assistance. China with a larger population would be eligible for a similar amount. It is forecast that within the year China will also be invited to joint the World Bank. This could further assist her in obtaining needed capital.[54]

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[53]John Hoffman, "Joint Venture Laws Lead Way," Financial Times, July 10, 1979.

[54]R. Gregory Nokes, "China Joining IMF," Monterey Peninsula Herald, April 14, 1980, p. 10.

3. Agriculture and Light Industry First

Chinese leaders have set their priorities for economic development with agriculture and light industry at the top of the list. With a billion people, it is essential that food be produced to feed them. The importing of grain and other food goods from abroad reduces once more the capital available for the importation of high technology items which they desire. Because more than 80% of the labor in China is still involved in agricultural production, the productivity of agriculture determines in a major way how productive the total economy will be.

The potential for expanding the production of consumer goods, both for export and for domestic consumption, has been recognized by the economic planners in China. As they report, "In 1978, one-sixth of China's total national revenue, or 18 billion yüan, was from profit and taxes paid by light industrial concerns." It is also reported that they are sold in over 150 countries and account for over a quarter of China's total value of exports.[55] The significant factor in China's push for greater production of light industrial products is her capability to produce these without extensive capital investments.

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[55]"Light Industry Exhibition," China Reconstructs, February, 1980, pp. 10-11.

B. THE FUTURE FOR U.S.-CHINA TRADE RELATIONS

China has emerged from a position of limited economic interdependence. Her hesitancy to become involved with other nations in the past was largely motivated by a desire to avoid economic dependency. Because of this, China has concentrated mainly on her internal economic development. However, since the death of Mao Zedong in 1976, a pragmatic group of leaders has emerged. They have changed the direction of China's economy. Their recognition of the limitations of their own capabilities to modernize China without acquiring foreign capital and technology has caused them to look outward.

The period of relative isolation did allow the Chinese to achieve some economic progress. An industrial base has been established which might have been more difficult if China's industries had been competing with imports from abroad. But China's economic progress has been interspersed with periods of political and economic turmoil. The Great Leap Forward and the Cultural Revolution were painful lessons in the need for political stability to ensure economic success. The important question now is, "will the lessons of the past be long remembered?"

As has been pointed out, the United States has long had an interest in the trade potential between China and America. Once again the allure of the China trade has excited the interest of many in the U.S. However, the limitations China

has in rapidly expanding her economy may cause somewhat slower progress in expansion of trade than some would hope. In the past few months, even the Chinese economic planners and government leaders have recognized the problems facing China. Therefore, many goals have been adjusted downward to more realistic levels.[56]

Significant steps have already been taken to increase trade with China. The touchy question of relations with Taiwan seems in most people's minds to have been resolved. Trade with Taiwan has increased despite the formal termination of relations in 1980.[57]

In an effort to attract more buyers of Chinese commodities, China conducted a large traveling trade exhibition in San Francisco, Chicago, and New York recently. However, it will be necessary for China to be able to export more before they can buy a significant amount of goods abroad. This is one problem limiting the volume of U.S. goods sold to China. It is hoped this more active selling of Chinese goods will increase the market for them.[58]

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[56]Barry Kramer, "PeKing Is Pushing Back Several Production Goals," The Asian Wall Street Journal, March 17, 1980, p. 2.

[57]Barry Kramer, "Taiwan Thriving a Year after Loss of U.S. Recognition," The Asian Wall Street Journal, February, 1980, p. 13.

[58]Asia 1980 Yearbook (HongKong: Far East Economic Review, 1980), p. 161.

One concern in the back of many Americans' minds is, "how long will the present moderate political policy be followed?" If a change in leadership were to cause a return to former political lines, it is recognized that foreign investments may be in danger. This causes some to be cautious about the future of trade and capital investments with China.

But it seems under the present policies and in the interest of the modernization of China, economic growth will continue to receive priority attention. Total trade in 1978 rose 30% over 1977; 1979 trade was 23.9% over 1978.[59] With an increase in trade of over 50% in two years, it is apparent that great effort is going into increasing foreign trade. In this atmosphere, it is in the interest of the U.S. to take advantage of opportunities to participate in that trade. The improvement of China's trade has other implications than the trade benefits America may derive.

The tremendous economic growth in many areas of Asia over the past decade has increased the demand for both energy and resources. It has been speculated by some that this demand for resources in Asia could cause conflict and instability in the region. Therefore, the development of Chinese energy and resources could have a stabilizing influence as they are made available to other Asian countries. This is especially true

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[59] Ibid.

of Japan. Because she is dependent on other countries for over 97% of her oil, she is very vulnerable to political or economic manipulation by countries such as the OPEC oil-producing countries. If Chinese oil sources could be expanded to meet a greater share of Japan's oil needs, it would give her greater independence. This could contribute to the stability of the region.

IV. UNITED STATES STRATEGIC INTERESTS

As U.S.-China relations have evolved, the question of U.S. security interests has raised questions about the possibilities of closer military relations. This has generally been limited to discussion of the extent to which the United States should go in helping to modernize the Chinese military forces. Both countries recognize the limited capabilities of the People's Liberation Army (PLA) compared to other modern armed forces; however, the extent to which either country is willing to go to modernize China's military is the big question.

A brief look at the recent military history of China illustrates how much has changed in U.S.-China relations already. After a period of two decades as active or potential enemies, even discussing the possibilities of strategic cooperation is significant. Just as China's economy has been seriously affected by political turmoil in China, the military has risen and fallen in influence and importance during different periods. The military has played a key role as an instrument of political policy makers. This has enhanced the importance of the military in the eyes of Chinese political leaders and has made the condition of the military a concern of political leaders.

A. THE STRATEGIC SETTING

1. The Civil War Period

The foundation of today's military forces in China was laid during the long civil war period. As the Communist army gradually grew larger and stronger in their struggle against the Nationalist and Japanese armies, the doctrine of "People's War" evolved. People's War expressed both Mao's faith in the rural masses and the military necessities of the civil war period. But this doctrine has played a key part in both the planning and tactics employed by the People's Liberation Army (PLA) since then.

Recovering in Yanan after the 6000-mile "Long March," with less than a third of the 100,000 soldiers who had started, Mao built a strong loyal cadre of soldiers who provided the nucleus for both the army and the Communist party in China. The influence of these men is still felt in China's military.[60]

The equipment for the Communist army during the Civil War period was an odd combination of armaments gathered from various former warlord armies, some Soviet arms, captured Japanese equipment, and increasingly large amounts of U.S. equipment recovered in victories over Nationalist troops. During the Yanan period, some arms were manufactured by the PLA in primitive arms factories. But up until the victory

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[60] DuPre Jones, ed. China U.S. Policy since 1945 (Congressional Quarterly, 1980), p. 22.

in 1949 the army as a whole was quite ill equipped and depended more on the good will of rural peasants than armament for most of their victories.

2. Soviet Alliance

The Soviet Union recognized the People's Republic of China shortly after they proclaimed the establishment of the PRC. Soon China and the Soviet Union had signed a treaty of friendship. This treaty was soon put to the test with the outbreak of hostilities in the Korean Peninsula. China had a direct interest in the Korean conflict because of their mutual border. The Soviet Union also had an interest in seeing the North Korean government they had established achieve a victory. However, direct Soviet involvement in the fighting would have risked the possibility of a direct fight with the United States, their former ally. This they apparently were not ready to risk. But the Chinese army was close by. Soviet aid to the Chinese army increased, and the Chinese soldiers crossed the Yalu River and entered the fight on the side of the North.

Korea played a significant role in the development of the Chinese army. They found themselves facing a much better equipped army, and despite their superior numbers fighting reached a stalemate. The PLA had gained both a valuable lesson in combat and a lot of Soviet military aid during the Korean conflict. The Soviet aid continued after the war with both equipment and technicians coming into China.

Since China was struggling to get the economy stabilized at the same time the Korean conflict broke out, Soviet aid became very important to the military. It made modernization efforts possible. Therefore, the Soviet help was relied upon a great deal and the influence, especially on military hardware, was great. The progress was quite rapid. By 1956, the Chinese had advanced from the manufacture of simple arms and artillery to the more sophisticated production of jet fighters.

3. Self-Reliance

It was not long until the Chinese leaders began to see some of the disadvantages of too much dependence on a single arms supplier, as well as the political demands which accompanied a close strategic and political alliance. Mao was not content to look to Moscow as the fountain of all political wisdom and direction. One of the points of conflict between strong proponents of continued close relations with the Soviet "party line" and those who with Mao moved toward greater independence was the question of military strategy and doctrine. Mao emphasized the importance of the human factor in warfare and did not want China to become too dependent on advanced equipment. He still saw China's masses as the great strength of her military.

The political disputes between China and the Soviet Union led to the removal of Soviet technicians in late 1959.

This virtually stopped China's military modernization efforts for more than a decade. Shortages of parts, fuel, and know-how seriously hurt the military. However, a new campaign to involve the PLA more in the political and domestic affairs kept the army in a key role in society. This culminated in the use of the PLA in 1969 to restore order at the close of the Cultural Revolution.

B. A NEW CALL FOR MODERNIZATION

China entered the decade of the 1970's with a move toward both international and domestic pragmatism. Pressures from such leaders as Zhou Enlai were calling for China to expand her involvement in the international community. And other pressures were looking for more rapid advancement in China's economy. The direction of these pressures led to steps toward improved relations with the West. And at the Fourth People's Congress in 1975 Zhou outlined the call for the Four Modernizations. Defense was one of the four. As the Chinese have begun to look to the West for help in technology and equipment, they have been looking at military as well as industrial items. There are pressures both in China and the United States that call for U.S. assistance for the Chinese in their effort to modernize their army. Before discussing these interests, however, an analysis of the present state of the PLA forces is needed.

V. CHANGING STRATEGIC INTERESTS SINCE 1972

A. THE SHANGHAI COMMUNIQUE

The Shanghai Communique issued jointly by the U.S. and China on February 27, 1972, at the end of President Nixon's trip to China reflected the desire of both countries to work toward normalization of diplomatic relations and expansion of trade and other contacts. Although each side outlined their positions on key strategic problems in the region, there was not yet indication of serious consideration of joint strategic cooperation. The Taiwan question was still a serious one, which at that time seemed to preclude any discussion of U.S.-Chinese strategic partnership. But the process toward closer cooperation had begun.[61]

B. TOWARD NORMALIZATION OF RELATIONS

One year after President Nixon's historic trip to China, Henry Kissinger, then Assistant to the President for National Security Affairs, visited China again. Following his visit, it was announced that agreement had been reached for each government to establish a liaison office in the capital of the other. It was further stated that the time was appropriate

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[61]For the text of the Shanghai Communique and other documents relating to the improvement of U.S.-China relations, see DuPre Jones, ed. China: U.S. Policy since 1945 (Washington: Congressional Quarterly, 1980)

to accelerate the normalization process and to broaden contacts in all fields. This laid the foundation for future scientific, cultural and other exchanges.

When President Ford visited China in December of 1975, he not only reaffirmed the U.S. commitment to the principles of the Shanghai Communique, but he also spoke of shared interests "in seeing that the world is not dominated by military force or pressure."[62] Talks on this visit were reported to have centered largely on the international aspects of the evolving U.S.-China relationship. Concern both countries felt about prospects of the Soviet Union attempting to expand its influence in the region was influencing a growing discussion of the strategic possibilities of an improved U.S.-China relationship.

The death of Mao in September of 1976 was followed by a brief power struggle in China. It soon became apparent that the leaders who emerged were committed to pushing for rapid economic growth in China. Moreover, in order to achieve their goals, they were willing to look to the West for assistance.

C. MUTUAL DIPLOMATIC RECOGNITION

On December 15, 1978, President Carter announced that the United States and the People's Republic of China would

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[62]U.S. Policy toward China July 15, 1971-January 15, 1979, (Washington, D.C., Department of State, 1979), p. 23.

establish full diplomatic relations on January 1, 1979.[63] The joint statement issued at that time implied the strategic implications of the normalization of relations between the two countries. Although assuring that such diplomatic ties were not directed "at" any other nation, it was pointed out that among other things:

--- Both wish to reduce the danger of international military conflict.

--- Neither should seek hegemony in the Asia-Pacific region or in any other region of the world and each is opposed to efforts by any other country or group of countries to establish such hegemony.[64]

The major obstacle to a close strategic relationship between the two countries continued to be the question of U.S. strategic ties between the U.S. and Taiwan.

D. TAIWAN LEGISLATION

The concern expressed in Congress and among many U.S. interest groups about the decision to terminate the U.S.-Taiwan Defense Treaty caused great interest in the subsequent formulation and enactment of the Taiwan Relations Act on April 10, 1978. The framework of future unofficial American-Taiwan contacts was outlined in this legislation. The

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[63] Ibid., p. 45 for text of joint U.S.-China announcement, as well as President Carter's news conference which followed.

[64] Ibid.

establishment of the American Institute in Taiwan to coordinate U.S. interests on the Island formed the basis for some continuation of contact with Taiwan. However, all U.S. military personnel have been withdrawn from Taiwan. The U.S. reservation of the right to continue to provide arms transfers to Taiwan for the maintenance of their defense allows for a limited strategic relationship with Taiwan.[65]

Despite apprehension by many Americans to the terms of the normalization of relations with China and the termination of official relations with the government on Taiwan, the feelings of most Americans seem to have changed as they have seen the results of these changes since 1979. A recent public opinion poll reported that two-thirds of Americans polled approved of the present U.S. China policy. This marked a significant change from the feelings of the public three years earlier.

The change of relations from the Taiwan government to the Beijing government has shifted U.S. interest to the question of the capabilities of the PRC military forces and the possibilities of increased U.S. involvement with China in a strategic relationship.

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[65] Implementation of The Taiwan Relations Act, Committee on Foreign Affairs, House of Representatives, 96th Congress (Washington: U.S. Government, 1981). These hearings before the Subcommittee on Asian and Pacific Affairs discuss the effects of implementation of the Taiwan Relations Act.

V. STATE OF CHINA'S MILITARY FORCES

China's military forces are predominantly defense oriented conventional ground forces. The PLA also includes the air, naval, and rocket forces of China. A review of the capabilities of the PLA is necessary background for a discussion of U.S.-China arms transfer questions.

A. MANPOWER

One thing China has no shortage of is manpower. The 4,360,000 personnel in the PLA active duty forces make it the largest army in the world. This number, which represents less than one percent of China's population, is augmented by a reserve militia estimated to be seven million strong. Approximately 3.6 million of the active force is assigned to the 129 Main Force Divisions. The 115 infantry divisions and only 11 armored divisions reflect the Chinese emphasis on "People's War" strategy, as well as a lack of mechanized equipment. The remaining 760,000 personnel are assigned to the Air Force and Navy. Despite their emphasis on more technically trained personnel in these services, the sophistication of their equipment is still limited compared to U.S. or USSR inventories.[66]

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[66]"The Military Balance 1979/80," Air Force Magazine, December 1979, pp. 104-105.

B. AIRPLANES[67]

Bombers: The Chinese Air Force has approximately 1400 bombers, only 400 of which have strategic bombing capabilities. The old TU-2, Bat, designed 40 years ago, is of questionable operational use. Although they have a small number of TU-4 medium-range bombers, the Chinese-produced copy of the TU-16 Badger is their primary strategic bomber. It is estimated that the Chinese have 80 to 90 Badgers. The Air Force is better equipped with aircraft capable of playing a tactical bombing role. The Chinese-manufactured IL-28 Beague (300 to 400), some old Mig-15's, and the new Chinese-developed F-9 Fantan, which has been produced in China since 1970, complete the tactical inventory.

Fighter/Attack: The fighter force is made up primarily of 3,500 Mig-17 and Mig-19 type aircraft. About 80 Mig-21 and some F-9's also fill a fighter role. A Chinese-designed follow-on fighter, the F-12, is presently under development and some aircraft should be entering the inventory soon.

Transports: Approximately 500 transports of various designs make up the air transport inventory. The limited capability of the Air Force to provide airlift for the PLA is illustrated by the fact that over half of her transports

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[67]"China (People's Republic) Summary," DMS Market Intelligence Report, 1980, 10 pages. Additional sources on China's military capabilities are listed in the bibliography.

are AN-2 single-engine aircraft. China's acquisition of 10 Boeing 707's and four Boeing 747 SP's, and production of a limited number of IL-62's allow the civil aviation fleet a limited capability to augment the military airlift. But shorgage of air transports is still one of China's most glaring weaknesses. China has been developing a four-engine transport similar to the Boeing 707, but it is not considered likely that production of this aircraft will begin soon.[68]

Helicopters: Most forecasts estimate the Chinese have approximately 500 helicopters. Of these, most are the versatile MI-4 type. Some MI-1 and MI-8 types and 28 SA-316B SA-321's complete the inventory.

Naval Aircraft: Four divisions of bombers, including TU-2's, TU-16's, and torpedo-armed IL-28's are assigned to the Navy. The Navy also has approximately 575 Mig-17 and Mig-19 fighters and 50 MI-4 helicopters.

C. NAVAL SHIPS[69]

Destroyers: The Chinese Navy has seven Luta Class (3,250 tons) and four Anshan Class destroyers. The Luta Class vessels are of Chinese design and construction, while the older Anshan Class were all obtained from the Soviet

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[68]Based on personnel interview with China Civil Aviation Officials during Nov. 2-12, 1980, trip to China by the author.

[69]"China Summary," Op. Cit.

Union in the early 1950's. They had earlier been commissioned in the Soviet Navy in 1940 and 1941.

Frigates: The Navy operates 14 frigates ranging from 1200 to 1800 tons. Some are armed with SAM launchers and some are believed to have mine laying capability.

Submarines: The majority of China's 80 submarines are Soviet designed vessels built in China. One nuclear submarine is operational and a second is believed to be under construction. One Golf Class submarine is known to have three vertical missile launchers, but it has not been confirmed that it is armed with missiles.

Escort Vessels: There are 15 escort vessels in the Chinese fleet.

Attack Craft: A total of approximately 800 Fast Attack vessels, missiles, torpedoes, or guns equipped, provide a pretty good coastal defense capability.

Patrol Craft: About 115 patrol craft of varying types are used for river and coastal patrol.

D. ARMY EQUIPMENT[70]

Tanks: It is estimated the PLA has 8000 to 11,000 tanks. The majority of these are Soviet type tanks of World War II vintage. The Chinese have over the past 25 years been

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[70] Ibid.

manufacturing T-59, T-60, and Chinese-designed T-62/63 tanks. However, the armament of none of the Chinese tanks is comparable with Soviet or U.S. type equipment today.

Armored Personnel Carriers and Fighting Vehicles: It is estimated by DOD that the Chinese have between 2000 and 3000 APCs and Fighting Vehicles. These are mostly of older design similar to the Soviet BTR-152, BTR-40 and BA-64 armored car. Chinese assault guns include the Soviet SU-76, SU-100, ISU-122 and ISU-152 models.

Artillery: DOD estimates the PLA has 15,000 to 18,000 artillery pieces, including 76mm field guns, 122mm howitzers, and 130mm guns.

Anti-aircraft Guns: There are about 4500 anti-aircraft guns in the Chinese arsenal.

Other: Chinese rifles, mortars, machine guns, and grenades are generally of Soviet design and in most cases of World War II vintage.

As a review of the Chinese military equipment reveals, the PLA is equipped mostly with equipment designed or built originally in the 1940's or 1950's. Although much of this equipment is very serviceable, one military observer who accompanied Secretary of Defense Harold Brown on his trip to China in January 1980 remarked, "For the moment, the People's Liberation Army (PLA) seems stranded in mid-century."[71]

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[71]"A Look at China's Army," Newsweek, 21 January 1980, p. 51.

However, the Chinese seem to look to their nuclear capability to provide a deterrence against enemy attack.

E. THE NUCLEAR FORCES

Since the first successful nuclear test in October 1964, it has been known that China has had the possibility of developing a viable strategic nuclear capability. However, because of their limited delivery systems, few considered them very seriously. Even their best delivery systems had a maximum range of 1750 miles for their missiles or about 2000 miles for their old TU-16 bombers.[72] The USSR defenses seemed almost impregnable to the limited Chinese threat. But the successful launch of two CSS-X4 ICBMs by the Chinese 6200 miles into the Pacific changed the nuclear equation.

Franz Schurmann has pointed out, "the missile fired into the South Pacific serves notice on Moscow that China is no longer merely a regional power, but is now the third member of the ICBM club."[73] Although China still has only a limited number of warheads or delivery systems, the nature of the destructive forces of even one warhead is enough to cause apprehension in Moscow. If the nuclear threat is not

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[72]Jay Matthews, "China's ICBMs Seen Deterring Soviet Attacks," Washington Post, 22 May 1980, p. 18.

[73]The Military Balance: 1979/1980 (London: The International Institute of Strategic Studies, 1979).

adequate to deter any Soviet first strike, the thought of invading Chinese territory following a nuclear exchange seems like an unwelcome challenge for the Soviets. This is brought into focus by the present difficulties the USSR is having in putting down resistance in Afghanistan.

The following table gives a summary of China's nuclear missile forces.

TABLE 6

CHINESE MISSILE FORCES

Type	Quantity	Range	Propellant
CSS-X4 ICBM	?	6000-8000NM	Liquid
CSS-X3 Limited-Range ICMB	2-5	350NM	Liquid
CSS-2 IRBM	35-50	1500NM	Liquid
CSS-1 MRBM	30-49	600-700NM	Liquid

Perhaps the greatest shortcoming of the Chinese missile force is its dependence on liquid fuels. Because of their time requirements to fuel a missile prior to launching, it is questionable how effective they would be as a second strike weapon. However, it is assumed the Chinese are presently

developing solid fuels. It is not known when solid-fuel missiles will be operational.

VI. ARMS TRANSFER DEMANDS

The state of Chinese military forces, as well as U.S. interests in China, create certain pressures for development of a strategic relationship and the transfer of arms to aid China in her modernization. These pressures are referred to as arms transfer demands. This chapter analyzes the demand factors for or against transfer of military arms from the United States to China.

A. CHINA: ARMS RECIPIENT DEMANDS

1. External Threat

There is no question that China perceives the Soviet Union to be its greatest threat. The 4500-mile border between the two countries has been the location of numbers of clashes over the past three decades. The extensive build-up of Soviet military forces along the border has aggravated this feeling of concern. In 1958 there were only 15 Soviet divisions along the Chinese border. By 1968, the Soviets had increased the border forces to 45 divisions. These Soviet divisions continue to pose a threat to Chinese security. In addition to the conventional forces along her border, the Soviets have almost unlimited air and missile capability to penetrate China with either conventional or nuclear warheads and bombs.

The military threat to China has been increased in recent years by the growing alliance of Vietnam and the Soviet

Union. Although Vietnam's army is numerically smaller than China's, the large quantity of military equipment obtained by the Vietnamese with the fall of South Vietnam and the continuing Soviet support makes her a serious military threat.

Taiwan also poses a limited military threat to China. Although it is improbable that the Taiwan government would launch an attack without U.S. support, which seems very unlikely under the present U.S.-China relations, the Chinese must be mindful of Taiwan's capabilities.

2. Alliance for Influence

The Chinese certainly see the possibility of closer U.S.-Chinese relations as a factor in changing the degree of disadvantage they see between themselves and the Soviet Union. They see the United States as the strongest ally they could have in any confrontation with the Soviet Union. Therefore, a closer relationship with Washington seems to be in their interest. Any arms transfers from the U.S. to China would be considered as a signal to the Soviet Union of the degree of cooperation between the two countries.

3. Improve Military Capabilities

China recognizes the limitations of her military forces. In an effort to modernize those forces, she is looking not just to the United States but also to Western Europe and Japan for equipment and technology. There is no question from the extent of Chinese visits and discussions

with many countries that China desires to obtain an improved military capability. The only question seems to be costs and priorities.

4. Costs of Modernization

Perhaps the controlling factor in the purchase of arms from other countries is the cost. With a limited foreign trade income, China is being forced to establish priorities as she tries to modernize on several fronts. It is clear that important decisions have been made recently to delay much of China's military modernization to place first priority on modernization of the industrial and economic base. It is felt that this is necessary even to provide the capability to produce the advanced military equipment that China will want to produce later.

5. Previous Arms Transfer History

The source of almost all China's arms imports since 1949 has been the Soviet Union. The Sino-Soviet alliance through the Korean and Cold War eras grew stronger as the world was divided into communist and non-communist camps. China became increasingly dependent on the Soviet Union for both arms and technological assistance.

When the Sino-Soviet relationship became strained and finally broken, China sent all Soviet technicians home. China was left with many unfinished projects and serious problems in maintaining the equipment they had acquired. This

experience has caused the Chinese to look to many different potential suppliers for both arms and technology. It has also influenced them to seek co-production arrangements which will result in training of Chinese technicians and the eventual takeover of all production by the Chinese. By doing this, they also hope to acquire the maximum amount of equipment for their limited capital.

6. Absorption Capability

The high price of the disruption of almost all education in China for nearly a decade during the turmoil of the Cultural Revolution will be felt for many years. Although much effort has been expended to restore China's educational institutions, only three to four percent of the students who take entrance examinations are admitted to the universities today.[74] This will obviously only produce a fraction of the trained personnel needed to produce and operate sophisticated equipment in the years ahead.

Some of the problems China faces in this regard have been apparent in the first major co-production project they have attempted. The effort to produce the British Spey engine has been marked by production delays and the output of engines that did not meet operational requirements. The British

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[74]This information was confirmed by the author in discussions with a number of university students in China in November 1980.

have increased their involvement in the production to preclude failure of the project.

7. Domestic Political Considerations

China's thirty-one-year history has been marked by periods of great political turmoil. The current leadership reflects a pragmatic approach emphasizing political moderation and economic stability. The continuation of efforts by the Chinese to acquire needed arms and technology from the West rests upon a continuation of political control by moderate elements in China. Although this seems probable at the present time, there is always the potential for radical changes in the Chinese political environment.

One other important aspect of the domestic political situation in China today is the act that political leaders, and not the military leadership, are making the decisions about Chinese priorities. Whereas in the past, decisions about the spending of government revenues were largely influenced by military men, today the military is being told what they get and when. And the answers are not always what the PLA would like to hear. The decision to emphasize other priorities in China's modernization effort has left the modernization of China's defenses to wait for much of the equipment military leaders would like to obtain now.

B. UNITED STATES: ARMS SUPPLIER DEMANDS

There are many factors which would cause the United States to transfer arms to China. The changing nature of the world environment has helped shape these factors as well as the changing U.S.-China political relationship. Not all factors are positive. Some influence policy makers to use restraint and caution in expanding any military cooperation or transfer of military-related items to China. Among the primary factors affecting U.S. arms transfers to China are the following:

1. Desire to Counter Soviet Military Power

The rapid development of Soviet military power has resulted in many observers pointing out that USSR military strength has not only matched but surpassed the United States.[75] This has raised concern of many over prospects for future Soviet challenges to U.S. allies with the belief in Moscow that the United States does not have the strength to counter them as it did during the Cuban Missile Crisis of 1962. One possible way to strengthen the U.S. position is to strengthen the Chinese military.

Since China and the USSR view each other as hostile neighbors, their 4500-mile border is an area of constant

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[75]"The United States and the Soviet Union," The Military Balance 1980/81 (London: International Institute for Strategic Studies, 1980).

tension. The Soviet build-up along the Chinese border has illustrated Soviet concern. By helping China maintain a realistic military capability, pressure can be maintained on the Soviet Union to continue to deploy large forces along the China border which might otherwise be used for other purposes, such as to put increased pressure on our NATO allies.

2. Help Maintain Stability in Asia

Since the Sino-Soviet border clashes in 1969 there has been considerable concern in the United States that a war between China and the Soviet Union was possible. Any such conflict could involve other countries of Asia and eventually involve the United States. The lack of a strong stable Asian military power could invite aggression from the Soviet Union.

Asia is an area where many historical conflicts have occurred. Both population and resource-demand pressures could fuel natural animosities in the future causing new outbreaks of hostilities. Since the United States first called for an "open door policy" toward China in 1899, it has been the position of most U.S. policy makers that a strong independent China was the best possible influence for stability in Asia. U.S. assistance in developing the Chinese military would strengthen the position of the Chinese government in dealing with external threats.

3. Increase United States Influence in Asia

A large percentage of the world's population lives in Asia. Moreover, the increasing role developing countries are playing in the world's economic and political affairs gives added importance to the United States maintaining and even increasing its influence in the area. Japan has in recent years been a major U.S. trading partner. However, Japan's size, resource limitations, and military capabilities cause many to question how much Japan will be able to affect the strategic and political affairs of Asia. If the United States wishes to be able to play a part in helping to shape policies adopted in Asia, she must look to other countries, including China, as friends.

The transfer of arms by the United States to China would increase the possible opportunities to influence decisions of the Chinese leaders. China's interest in obtaining arms and technology from the West shows a new willingness to learn from the West. Although the interest may be largely in obtaining technology and equipment, it does signal an openness not evident since the communist government was established in 1949.

4. Generate Income from Arms Sales

Arms producers see the possibility of exporting arms to one of the world's largest armies as a potential for large future sales. However, the limited Chinese capital

and the Chinese policies of looking for joint production agreements suggests profits from arms sales to China may be less than expected.

5. Arms Transfer History

The historical alliance with the Kuo Min Tang (KMT) government has set a precedent that would have to be reversed in order to transfer arms to China. There is also a precedent against transferring arms to communist countries. But the changes which have been made in our diplomatic relations with China and Taiwan have set the stage for expanding the relationship with China. The sale of arms to China would indicate a continuing improvement in U.S. and China relations. Moreover, the United States and other countries have historically utilized arms transfers as an instrument of foreign policy.

6. Effects on Third Party Relationships

One of the important questions raised by possible military aid to China is the effect it might have on U.S. relations with other countries. The greatest concern is that the Soviet Union may view any arms transfers as a signal of increased hostility toward them and an escalation of U.S. arms build-ups. Many have cautioned that such an action would adversely affect U.S.-Soviet relations. As Paul C. Warnke recently wrote,

> It would be most unwise for the United States to accept any invitation to put together a global alliance

> to confront the Soviet Union. Nor is America's major concern -- nor should it be -- to build up Chinese military strength for that purpose. Nothing could be better calculated to precipitate a desperate Soviet attempt to expand its influence in Asia by threatened or actual use of its military power.[76]

But proponents of aid to China's military argue that the Soviet Union has already made a concerted effort to expand its influence in Asia and unless that effort is matched by some U.S. response it will go on unchecked. It seems the cooling of detente has reduced the number of voices raised in opposition to U.S. arms aid to China.

Since most other Asian nations share U.S. concerns for limiting Soviet influence in Asia, most would not be opposed to the transfer of arms, especially of a defensive nature, to China. The fact that England and other European countries have already made deals with China for arms with little repercussion seems to bear this out.

7. Support Moderation in Chinese Politics

The current leadership in China has shown a desire to avoid the radical extremes often seen in China over the past three decades. Not only have they opened the door to better relations with the West, but they have also set China on a course of economic growth and increased domestic

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[76]Paul C. Warnke, "U.S. Arms Buildup in Asia Could Backfire," The Asian Wall Street Journal, December 15, 1980, p. 10.

stability. It is in the United States' interest to see a continuation of a pragmatic leadership in China.

The moderate leadership now in power in China could be strengthened by the United States following a policy which would aid them in achieving their goals of modernizing China. Nothing will weaken the appeal of radical elements in China as much as success by the present moderate leadership.

TABLE 7

INFLUENCES FOR ARMS TRANSFER TO CHINA

RECIPIENT AND UNITED STATES SUPPLIER DEMANDS

	Influences for Arms Transfers:		
	Positive	Neutral	Negative
A. China Recipient Demands			
External Threat	X		
Alliance for Influence	X		
Improve Military Capability	X		
Costs of Modernization			X
Arms Transfer History		X	
Absorption Capability		X	
Domestic Political Considerations	X		
B. United States Supplier Demands			
Counter Soviets	X		
Maintain Regional Stability	X		
Increase U.S. Influence	X		
Provide Arms Sales Income	X		
Arms Transfer History		X	
Effect on U.S.-Soviet Relations			X
Influence China Politics	X		
Effect on Other Countries and U.S. Relations	X		

VIII. DEVELOPMENT OF U.S. ARMS TRANSFER POLICY TOWARD CHINA

A. EARLY CHINESE INTEREST IN ARMS TRANSFERS

> There were hints from the Chinese side, in conversations with nonofficial Americans during 1974-75, of possible interest in purchases of U.S. military technology. There were also articles in the Chinese press indicating that at least some leaders in Peking argued for obtaining advanced military technology from abroad.[77]

In the United States, there was also increased discussion of the possibility of arms sales to China. An article by Michael Pillsbury printed in the Fall 1975 issue of Foreign Policy discussed the prospects in detail.[78] In April 1976, Secretary of Defense James Schlesinger was quoted as saying that there had been discussions in the U.S. government of whether to consider arms sales to China.[79] And shortly after, Commerce Department Secretary Elliot L. Richardson said publicly that the United States would be willing to discuss arms sales to China if Peking raised the subject.[80]

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[77]A. Doak Barnett, "Military-Security Relations between China and the United States," Foreign Affairs, April 1977, p. 589.

[78]Michael Pillsbury, "U.S.-Chinese Military Ties," Foreign Policy, No. 20, Fall 1975, pp. 50-64.

[79]Washington Post, 12 April 1976.

[80]Ibid., 29 May 1976.

In the fall of 1976, when Secretary Schlesinger returned from a trip to China, he said, "We should not anticipate the Chinese initiating any requests" for the purchase of U.S. arms and "should not press any such deliveries upon them," but "we should not reject out of hand the notion of possibly supplying them with weapons."[81]

By this time, China had already been talking to some Western European countries about possible military arms purchases. Interest had been expressed in the British V/STOL Harrier jet fighters, Rolls-Royce jet engines and French Frelon helicopters.[82] Therefore, it seemed natural that the United States consider the possibility of U.S. arms agreements.

B. TRADE EXPANSION

During this period, China was beginning to make large purchases of technology from abroad, particularly in the form of complete plants in petrochemical, fertilizer, iron and steel and electric power industries. It was reported that 1975 agreements alone totaled $2 billion.[83] With its

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[81] U.S. News and World Report, 18 October 1976, pp. 41-42.

[82] Pillsbury, op. cit., p. 62.

[83] China: A Compendium of Papers, 94th Congress, 10 July 1975, quoted in Peter W. Colm, Peking's Evolving Concept of Military Security and Implications for the United States (Arlington: Institute for Defense Analyses, August 1978), p. 42.

large effort to acquire foreign technology, it is only logical that the Chinese also consider obtaining needed military technology through foreign purchases.

However, after 1975 there was a reduction in Chinese foreign purchases. The realization of the high costs and the impending foreign trade deficits caused a reassessment of China's goals. Greater emphasis began to be placed on developing Chinese exports to help balance the cost of imported technology.

C. TECHNOLOGY TRANSFERS

The first major U.S. technology transfer to China which could have military related uses was the sale of two Cyber 172 computers to China. The debate over this sale went on for almost a year. A Cyber computer sale to the Soviet Union was approved in September 1976 and in October the China sale was approved.

The Carter Administration moved slowly on any increase in arms transfers to China. Efforts were proceeding on the SALT talks and there was optimism over detente between the U.S. and the USSR. As Presidential Review Memorandum 24 was drafted, it recommended against arms sales to China because of likely Soviet adverse counter-reactions. The Soviet Union had in fact for some time been warning the West that if the U.S. and West European countries supplied China with weapons it would be a serious threat to peace and

would eliminate chances for a new SALT agreement with the United States.[84]

When the decision was made by President Carter to proceed with normalization of full diplomatic relations with China, he sent a message to Brezhnev assuring him that the move had no object but to promote the cause of world peace. Brezhnev replied stressing the importance of the U.S.-China relations not being directed against the Soviet Union.[85] However, events of 1979 changed many Americans' feelings about detente.

A DOD study released in October of 1979 urged that the U.S. aid the Chinese in the modernization of their military so that China could come to the aid of the West in the event of major war with the Soviet Union.[86] This seemed to set the stage for Secretary of Defense Harold Brown's trip to China in January 1980 to discuss defense issues of "mutual concern."

The Soviet movement into Afghanistan in December 1979 came just two weeks before Secretary Brown's visit to China. The concern of both the United States and China over this Soviet move provided the backdrop, as well as an excuse, for

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[84]"Soviets Warn West against Arms Sales to Peking," Washington Post, 27 August 1978, p. A-24.

[85]"Brezhnev Answers Carner on Normalization," Pravda, 23 December 1978, p. 1.

[86]"U.S. Urged to Aid Chinese Military," San Diego Union, 4 October 1979, p. 1.

increased U.S.-China military cooperation. While in China, Secretary Brown noted that, "the United States and China may take 'complimentary' military action if their 'shared interests' are threatened."[87]

D. 1980 UNITED STATES ARMS TRANSFER POLICY

The move toward more sales of military related equipment was signaled by Brown's signing of an agreement in Beijing to sell a sophisticated satellite ground station to China. But the U.S. arms transfer policy soon began to be spelled out more clearly. It centers around a plan to prohibit the sale of "military arms" but allows the transfer of advanced technology that could be useful to the military.[88]

By April of 1980 the U.S. State Department had published a list of military equipment, "including noncombat aircraft and helicopters, flight simulators and all sorts of electronic gear -- for which it might be willing to issue commercial sales licenses."[89] The following list outlines equipment the United States is now willing to consider exporting to China.

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[87]"U.S., China May Join Forces, Soviets Told," Los Angeles Times, 7 January 1980, p. 1.

[88]"U.S. Wont Sell Arms to China," Kansas City Times, 10 January 1980.

[89]"U.S. Now Willing to Sell China 'Non-Lethal' Defense Equipment," International Defense Intelligence, Vol. 2, Number 14, 7 April 1980.

-- "Aircraft and helicopters for liaison, cargo or personnel carrying, and lighter-than-air;

-- "Trucks, trailers, hoists and skids for ammunition or propellants;

-- "Recovery vehicles, flight trainers and simulators, and radar trainers;

-- "Airborne equipment (except for airborne refueling) to be used on the aircraft and engines permitted above;

-- "Aerial and special purpose cameras, photo interpretation and stereoscopic plotting equipment;

-- "Search radar and communication systems;

-- "Weather navigation, guidance and object-locating equipment;

-- "Self-contained diving and underwater breathing equipment, underwater telephones and simple fathometers."[90]

Vice-Premier Geng Biao's trip to the United States in late May 1980 demonstrated China's interest in a wide range of the above items. However, the limited availability of funds to purchase expensive items has limited the Chinese to a few key contracts. The main reason for this has been the adoption of a cash sale policy by the U.S. Assistant Secretary of State Richard Holbrooke told congressional committees, "the State Department does not anticipate asking Congress to extend China any Foreign Military Sales credits, and expects any future Chinese purchases to be made in cash."[91]

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[90] Ibid., p. 2.

[91] Ibid.

E. ASSESSMENT OF PRESENT UNITED STATES ARMS TRANSFER POLICY

The question of whether or not the United States should sell military equipment to China has been raised cautiously as Sino-American relations have improved. The hesitancy of Americans to move quickly toward a closer military relationship with China seems to be rooted in the pattern of past security concerns. For two decades China was viewed as a hostile military force which posed a threat to United States interests in Asia.

The Korean War set the stage for the continuing apprehensions about China. When China entered the war on the side of the North Koreans, it seemed to confirm feelings of many Americans who viewed China as an aggressive military force in Asia. Later China provided aid and support to North Vietnam while the U.S. was engaged in the Vietnam conflict. But China has never been a military threat to the United States directly. Until the recent development of the CSS-X4 ICBM, China did not have the capability to seriously threaten the United States.

But China has had the means to threaten other nations in Asia. U.S. allies such as Taiwan, Japan, nd South Korea were all within reach of Chinese air or naval attack. However China has over the years shown more concern with her own internal problems than an interest in external aggression. The greatest factor in China's changing view of her own

security interests has been the focus on the USSR as the number one enemy. This has coincided with increased concern in the United States with the growing Soviet military forces.

The prospect of gaining support from China in any possible confrontation with the Soviet Union has made many more interested in seeing an improvement in U.S.-China relations. Not only does it provide the prospect of increasing the strength of the U.S. alliance; but also, it has an important physiological impact by demonstrating the weakening of the communist alliance system. Therefore, opposition to improving U.S.-China relations has gradually subsided.

The most important question is whether or not it is in the United States' national interest to assist the Chinese in developing their military capability. To better assess that question, the arms transfer demand factors have been illustrated graphically (see Table 6). This subjective analysis shows that United States supplier demands would indicate a positive influence toward arms transfers to China.

The two most negative factors, arms transfe~ history and effect on third parties, seem to have both been largely neutralized by recent events. The diplomatic steps which have already been taken have shifted the United States from a position of commitment to Taiwan to an official

recognition of the PRC with unofficial trade and arms trade relations continuing with Taiwan. United States arms transfer history would incline the United States to follow the official diplomatic recognition of China with increasing arms trade agreements. In the past, arms trade has been used as a signal of acceptance or support of a particular government.

The concern about the Soviet reaction to increased U.S. military aid to China may still justify a cautious moderate approach to China arms transfers. But the earlier concerns about the effect such actions would have on U.S.-Soviet detente or the SALT II agreements has largely been nullified by Soviet actions in Afghanistan and the resulting cooling of U.S.-Soviet relations. It seems a limited amount of aid to China would most likely generate nothing more than some verbal protests from Soviet leaders.

The Chinese have obviously weighed their recipient demands and concluded that it is in their interest to seek arms from the United States, as well as other Western countries. The greatest limiting factors to their acquisition of arms are the costs of modernization and China's absorption capability. These will limit both the quantity and types of equipment the Chinese will

acquire, but will not prevent the gradual acquisition of new arms from abroad.[92]

With the recipient and supplier demand factors both indicating the desirability of arms transfers from the United States to China, we can proceed to an analysis of the present United States arms transfer policy.

The key elements of the present U.S. arms transfer policy toward China are: (1) specific itemized lists of equipment which may be sold, (2) restrictions against the sale of combat type equipment (3) approval of only cash sales, and (4) the allowing of sales of combat equipment by other Western countries without U.S. objection.

A couple of the above policies seem to be particularly contrary to U.S. interests and supplier demands. First, the sanctioning of sales by other governments of combat type equipment while preventing the sale of the same equipment by U.S. manufacturers seems to hurt U.S. arms producers more than anyone else. This policy has developed out of concern for the possible reaction by third party countries to U.S. arms transfers to China. However, as has already been discussed, the major justifications for such concerns have been largely removed. It would, therefore, seem to be

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[92]For a summary of the items the Chinese have been shopping for see Table 7, page 85. A comparison of defense expenditures by key countries is outlined in Table 8, page 86.

TABLE 8

TYPES OF WEAPONS, EQUIPMENT AND TECHNOLOGY CHINA HAS EXPRESSED INTEREST IN (1977-1979)

Aircraft and parts (26 types)	34.1%
Anti-tank weapons	17.6%
Shelter, nuclear attack	9.5%
Anti-submarine warfare gear	7.1%
Computers with military applications	5.9%
Reconnaissance and communications satellites	5.9%
Anti-aircraft weapons	4.7%
Tanks and armed personnel carriers	4.7%
Nuclear weapons and missiles	3.6%
Naval engines	2.3%
Submarines	1.2%
Equipment for ships over 10,000 tons	1.2%
Laser equipment	1.2%
Bridging equipment	1.2%

Figures = Percent of inquiries made by Chinese to Western countries.

Source: Angus M. Fraser, "Military Modernization in China," Problems of Communism, September-December 1979, p. 40.

TABLE 9

DEFENSE EXPENDITURE COMPARISONS 1976-1979

Country	1976	1977	1978	1979
China (PRC)	34.4	37.0	40.0	46.0
Taiwan	1.6	1.7	1.8	n.a.
Japan	5.0	6.0	8.6	10.0
Soviet Union	127.1	133.0	148.0	n.a.
United States	91.0	100.9	105.1	114.5
Korea, North	n.a.	1.0	1.2	1.2
Korea, South	1.5	2.0	2.6	3.2

Figures = $ Billion U.S.

Source: Air Force Magazine, December 1979, p. 133.

in the United States' interest to remove the present restrictions on the types of equipment that other Western countries are presently negotiating sales for with the Chinese.

The other major problem which prevents completion of many arms transfer agreements is the prohibition against extending any Foreign Military Sales credits to China. If it is in the U.S. national interest to formally recognize the PRC government, to expand trade and cultural exchanges, and even to grant most-favored-nation status to them, it

is inconsistent to then say cash will be required for all arms purchases. This is certainly not consistent with the arms transfer policy toward most other countries, even some who seem far less stable and reliable than China. By extending F.M.S. credits to China, the major problem of costs of acquisition could be lessened for the Chinese.

If it is desirable to see the Chinese military modernized, it may be in the U.S. interest to go even further to help offset the problem of absorption of the new technology and equipment needed to modernize their military. This could be done on two fronts. First of all, by government approval of technical training being provided by U.S. manufacturers who sell items to the Chinese. This could be accomplished in a manner similar to the training which was provided for Chinese aircrews and technicians by Boeing Aircraft Company when they sold Boeing 707 and 747 aircraft to China. This could be expanded by the government through mutual military exchanges which would allow Chinese military personnel to attend U.S. military training courses and serve on exchange duty with U.S. Forces. U.S. personnel could reciprocate by participating in Chinese military operations. Although this step may not be practical at the present time, it should not be ruled out for future consideration.

Further technological aid may include consideration of assistance to the Chinese in developing solid fuels for their

ICBM forces. This would not seem wise at the present time since the Soviet Union would consider it as aid directed at them. However, the possibility of doing this could be an option for the U.S. to consider in dealing with the Soviet Union.

Several steps could be taken to preclude over-commitment to Chinese military development. It is important that while removing restrictions against certain types of arms, future transfers be subject to case-by-case approval. This could preclude a feeling that any amount of a certain type of weapon or equipment should be transferable. Moreover, if it is later decided that a certain sale should not be made, it does not give the impression of a reversal of former policy.

Another reasonable limitation could be one directed against certain offensive types of equipment. By selling primarily defensive arms, most opposition both in the United States and from other countries could be avoided. This would also be consistent with previous arms transfer policy toward other countries such as South Korea and Taiwan.

It seems from this brief analysis that it would be desirable for the United States to revise its arms transfer policy toward China as it was designed at the end of the Carter Administration. A change allowing an expansion of

arms transfers to China would support the United States' interest in (1) countering Soviet efforts to expand their influence in Asia, (2) help equalize the military balance in Asia and the world, (3) encourage the pragmatic approach in Chinese politics, and (4) reduce the likelihood of a Sino-Soviet conflict by strengthening the Chinese defenses.

IX. LOOKING TO THE FUTURE

The movement toward improved relations with China has been generally supported by both major U.S. political parties. The Nixon, Ford, and Carder administrations each played a part in expanding the scope of relations between the two countries. The Reagan Administration is also giving indications that, despite some talk during the 1980 presidential campaign about re-evaluating commitments to Taiwan, they will continue to work for close U.S.-China relations. In retrospect, it is apparent that improvement in relations between the United States and China has brought U.S. foreign policy closer in line with U.S. interests in Asia.

United States interests in China will continue to change. Events in any number of countries or areas of the world could affect U.S. interests in China. Therefore, it is important that the U.S. maintain flexibility in her relations with China which will allow policy adjustments as American interests change. In conclusion, possible future concerns and policy options in areas of political, economic, and strategic relations between the two countries will be discussed.

A. POLITICAL OUTLOOK

The first concern for the future of U.S.-China relations is the ever-present possibility of a change in Chinese

leadership or political philosophy which could make continuation of cooperation difficult. Although this is a possibility, China's recent actions seem to point toward a continuation of pragmatic leadership in China. The elevation of Zhao Ziyang to the position of party Chairman and the selection of Hu Yaobang to head the government as Premier further strengthen the influence of Deng Xiaoping. This seems to insure that policies of the recent past, which have encouraged better relations with the West, will continue to be followed. However, because of the nature of Chinese politics, radical elements in China could again gain power.

The United States should avoid close identification or ties with individuals or groups in China. Failing to do this could find the U.S. committed to a losing side in future Chinese political power plays.

The United States should continue to view U.S.-China relations in the broader context of U.S.-Asian and U.S.-worldwide concerns. The implications of close bilateral relations could have adverse effects on other important U.S. relationships. In Asia alone, the importance of U.S. relations with Japan, South Korea, and the countries of Southeast Asia suggest the need to proceed cautiously in expanding the alliance with China. Other nations in the region should be regularly consulted with to insure their interests and concerns are not overlooked.

As Michel Oksenberg has pointed out,

> The United States must maintain a well-defined sense of its interests and weigh each step forward in this light. As a corollary, we should not delude ourselves that we are building "friendly" relations with China, though on occasion it may be necessary to describe our relations in that way. Friendship implies a warmth and affection that China's leaders do not feel toward us as a nation. Self-interest, not sentiment, motivates them.[93]

There will continue to be large differences in opinion and political philosophy between leaders in Washington and Beijing. However, a continuation of U.S. efforts is needed:

-- to facilitate China's full entry into the international community in a way that would contribute to world peace and stability, not threaten it;

-- to acknowledge our national interest in the development of a strong, secure, prosperous, and friendly China that could play a legitimate and constructive role in the Asia-Pacific region and ultimately in the world;

-- to defuse contentious issues dividing ourselves from China, such as the Taiwan issue, and eliminate the danger of possibly catastrophic miscalculation by an emerging nuclear and major regional power;

-- to develop constructive patterns of consultation with the Chinese on international issues and build the friendly and cooperative economic, commercial, cultural, and other relationships with the Chinese necessary to sustain these ends.[94]

It is reasonable to hope that policies toward China following the course of the progress made over the past

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[93]Michel Oksenberg, "China Policy for the 1980s," Foreign Affairs, Winter 1980/81, p. 311.

[94]Richard Holbrooke, "China and the U.S.: Into the 1980's," Department of State, Current Policy, No. 187, p. 1.

decade in U.S.-China relations will continue to provide positive results.

B. ECONOMIC OUTLOOK

One of the most positive aspects of improving U.S.-China relations has been the rapid expansion of trade between the two countries. According to Commerce Secretary Malcolm Baldridge, "U.S.-China trade will exceed $6 billion this year (1981), up from $4.8 billion in 1980." He also stated, "Looking further ahead, we see two-way trade of at least $10 billion in 1984."[95]

However, the increase in trade is not without potential problems. Of the projected $6 billion in trade in 1981, $4.5 billion will be U.S. exports to China, compared to $1.5 billion worth of imports from China. This illustrates the problem China is facing in terms of trade imbalance.[96] The United States needs to carefully analyze the problem and consider steps which could be taken to help China expand imports into the U.S. If some attention is not paid to this problem, U.S. trade could have a destabilizing, rather than stabilizing effect on the Chinese economy.

The U.S. extension of up to $2 billion credit to China over five years through the Export-Import Bank will

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[95]"U.S.-China Trade Expected to Exceed $6 Billion in 1981," The Asian Wall Street Journal, June 8, 1981, p. 8.

[96]Ibid.

aid China in making key purchases of industrial plant.[97] But the Chinese themselves are realizing the tremendous cost of their desired modernization. This has caused government planners to call for re-adjustment of their modernization and economic goals. The U.S. must recognize the extent of the problems facing China economically and not expect too much too soon.

One of the problems that will face both government and business in dealing with the Chinese in the future is the shortage of well trained Americans who understand the language and culture of China. Efforts should be taken to encourage more training in these areas.

C. STRATEGIC OUTLOOK

What extent the Chinese government will go to modernize Chinese military forces is not yet known. However, recent events seem to indicate that defense is taking a back seat in the competition for limited funds.

From the American point of view, many have questioned the advisability of a U.S. strategic alliance with China. Professor Edward Olsen recently wrote, "The direct bilateral impacts of any truly significant U.S.-PRC security cooperation clearly would be counter-productive to overall U.S. objectives

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[97]"China Applies for U.S. Loan of $56 Million," The Asian Wall Street Journal, June 8, 1981, p. 8.

in Northeast Asia; regional stability and regional self-reliance."[98]

But just the potential for an expansion of a strategic alliance can act as a strategic deterrent to a nation, such as the Soviet Union, that may consider threatening U.S. or Chinese interests in the region. Therefore, it seems important that the United States continue to encourage development of China's military capabilities. This can be done without formulating an alliance system which would bind and restrict the United States in the future.

A relaxation of the restrictions the government has had on arms transfers to China would allow the U.S. to play a larger part in aiding China in her defense modernization. Instead of establishing blanket lists of approved or disapproved items for transfer, a flexible policy should be adopted. This would allow the U.S. to consider each transfer request on its own merits, in light of changing circumstances.

An expansion in the scope of contacts between American and Chinese military personnel could lay the groundwork for possible future operations. At the same time, much could be learned from each other that would improve the capabilities

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[98]Edward A. Olsen, "Beware Close US Military Ties with China," Christian Science Monitor, March 18, 1981, p. 23.

of each nation's military forces. By allowing some exchange of military personnel in military schools, expanding the number of visits by military personnel of both countries and initiating limited joint operations, much mutual understanding as well as training could be achieved.

D. SUMMARY

The state of U.S.-China relations at the beginning of the Reagan Administration is the result of serious re-evaluation of U.S. national interests over the past decade. The movement resulting in normalization of relations between the two countries has brought U.S. policy closer in line with current U.S. interests.

Improved relations have done much to:

- -- Counter USSR efforts to expand their influence in Asia;
- -- Helped equalize the military power balance both in Asia and world-wide;
- -- Encourage the continued success of more pragmatic elements in China;
- -- Lessen the likelihood of conflict in Asia by reducing the probability of Sino-Soviet conflict.

A continued expansion of diplomatic, trade, and to a limited extent strategic relations between the two countries should continue to support U.S. national objectives.

APPENDIX A

SELECTED ECONOMIC INDICATORS 1949-1974

Year	GNP (billions) 1973 $)	Production (1957 = 100) Industry	Agriculture	Output (metric tons/millions) Steel	Grain
1949	40	20	54	0.16	108
1950	49	27	64	0.61	125
1951	56	38	71	0.90	135
1952	67	48	83	1.35	154
1953	71	61	83	1.77	157
1954	75	70	84	2.22	160
1955	82	73	94	2.85	175
1956	88	88	97	4.46	182
1957	94	100	100	5.35	185
1958	113	145	108	11.08	200
1959	107	177	83	13.35	165
1960	106	184	78	18.67	160
1961	82	108	77	8.0	160
1962	93	114	92	8.0	180
1963	103	137	96	9.0	185
1964	117	163	106	10.8	195
1965	134	199	114	12.5	210
1966	145	231	116	15.0	215
1967	141	202	123	12.0	230
1968	142	222	116	14.0	215
1969	157	265	118	16.0	220
1970	179	313	129	17.8	240
1971	190	341	134	21.0	246
1972	197	371	130	25.5	250
1973	217	416	138	25.5	250
1974	223	432	141	23.8	255
Ave. Annual Increase (1949-1974)	7.2%	13.1%	3.9%	11.4%	3.5%
Ave. Annual Increase (1957-1974)	5.2%	9.0%	2.1%	9.2%	1.9%

Source: Allan G. Gruchy, Comparative Economic Systems (Boston: Houghton Mifflin, 1978), pp. 610-611.

APPENDIX B

KEY ECONOMIC INDICATORS 1977-1979

Key Indicator (value million Rmb)*	1977	1978	1979
Total Industrial and Agriculture	506.7	569.0	608.7
Total Industrial	372.8	423.1	456.9
Total Agriculture	134.0	145.9	151.7
Population (millions)	964.0	975.2	985.0
State Revenues	87.45	112.11	112.0
State Expenditures	84.35	111.09	112.0
Budget Surplus	3.10	1.02	0.0
Foreign Trade			
Exports (f.o.b.)	13.97	16.79	19.2
Imports (c.i.f.)	13.28	18.78	24.8
Total Trade	27.25	35.50	44.0
Trade Balance	0.69	-1.98	-5.6
Industrial Production (million tons)			
Steel	23.74	31.78	32.0
Coal	550.00	618.00	620.0
Electricity (billion KwH)	223.40	256.55	275.0
Agricultural Production (million tons)			
Grain	285.75	304.75	312.5
Cotton	2.049	2.167	2.4

*Rmb = Ren min bi or Chinese yüan (U.S. $1 = approx. 1.58 yüan)

Source: Far East Economic Review, October 5, p. 79, and Asia 1980 Yearbook (Hong Kong: Far East Economic Review, 1980), p. 160.

APPENDIX C

CHINA TRADE 1950-1979
(billion $ U.S.)

Year	Total	Exports	Imports	Balance
1950	1.210	0.620	0.590	0.030
1952	1.890	0.875	1.015	-0.140
1957	3.055	1.615	1.440	0.175
1959	4.290	2.230	2.060	0.170
1960	3.990	1.960	2.030	-0.070
1961	3.015	1.525	1.490	0.035
1962	2.670	1.520	1.150	0.370
1965	3.880	2.035	1.845	0.190
1966	4.245	2.210	2.035	0.175
1968	3.765	1.945	1.820	0.125
1970	4.290	2.050	2.240	-0.190
1971	4.720	2.415	2.305	0.110
1972	5.920	3.085	2.835	0.250
1973	10.090	4.960	5.130	-0.170
1974	13.950	6.570	7.380	-0.810
1975	14.320	6.930	7.385	-0.455
1976	13.529	7.214	6.314	0.899
1977	17.587	9.013	8.574	0.439
1978	22.903	10.813	12.090	-1.277
1979 (est.)	28.387	12.387	16.000	-3.613

Sources: Christopher Howe, China's Economy (New York: Basic Books, 1978), p. 137, and Asia 1980 Yearbook (Hong Kong: Far East Economic Review, 1980), p. 162.

APPENDIX D

UNITED STATES AND CHINA TRADE (JAN - NOV 1978)

U.S. Exports to China (over $10 million value)

Commodity	Value ($ million)
Wheat	217.47
Cotton, 1 to 1-1/8 in.	132.38
Yellow Corn	51.91
Polyester Fibers	42.89
Soybean Oil	26.12
Phosphate Fertilizer	17.61
Cotton, 1-1/8 in. or more	16.89
Tallow	11.66
Urea	11.51

U.S. Imports from China (over $1 million value)

Commodity	Value $4 million)
Sheet Cotton	1.21
Shirts, Cotton	1.16
Twill Cotton	1.15
Macaroni	1.15
Gum Resin	1.15
Furniture	1.14
Cord	1.14
Work Shirts	1.07
Wool Pile	1.07
Gloves	1.07

Source: Doing Business with China (Washington: Department of Commerce, 1979), pp. 26 and 34.

APPENDIX E

CHINA'S NATIONAL ECONOMY IN 1979

Item	Output	% Increase over 1978
Crude Oil	106.15 million tons	2.0
Electricity	281,950 million KwH	9.9
Chemical Fertilizer	10,654,000 tons	22.6
Rubber Tires	11.69 million	10.5
Tractors	126,000	10.5
Steel	34.48 million tons	8.5
Coal	635 million tons	2.8
Natural Gas	14,510 million cubic meters	5.7
Cement	73.9 million tons	13.3
Polyethylene	435,000 tons	14.5
Motor Vehicles	186,000	24.8
Sugar	2.5 million tons	10.1
--Total Industrial Output	459,100 million yüan	8.5
Grain	332,115,000 tons	9.0
Cotton	2,207,000 tons	1.8
Oil-bearing Crops	6,435,000 tons	23.3
Pork, Beef, Mutton	10.624 million tons	24.1
Tea	277,000 tons	3.4
--Total Agricultural Output	158,400 million yüan	9.0
Tourists	4.2 million	120.0
Tourist Revenue	696 million yüan	154.0

Source: China Reconstructs, July 1980, pp. 16-17.

APPENDIX F

CHINA'S CONSUMER GOODS PRODUCTION 1979

Item	Output	% Increase over 1978
Cotton Cloth	12,150 million meters	10.2
Silk Textiles	663.45 million meters	8.7
Chemical Fibers	326,000 tons	14.4
Radio Receivers	13.81 million	18.2
Televisions	1,329,000	157.1
Cameras	238,000	33.0
Bicycles	10.09 million	18.1
Sewing Machines	5.87 million	20.8
Wrist Watches	17.07 million	26.4

Source: China Reconstructs, July 1980, p. 17.

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